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Securities And Exchange Commission

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

VECTOR GROUP LTD.

(Exact name of registrant as specified in its charter)

DELAWARE

1-5759

65-0949535

(State or other jurisdiction
of incorporation)

Commission File Number

(I.R.S. Employer
Identification No.)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE ON
WHICH REGISTERED

Vector Group Ltd.

Common Stock, par value \$.10 per share

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

 Yes No

The aggregate market value of the voting stock held by non-affiliates of Vector Group Ltd. as of March 23, 2001 was approximately \$309,000,000. Directors and officers and ten percent or greater stockholders of Vector Group Ltd. are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

At March 23, 2001, Vector Group Ltd. had 25,667,018 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12 and 13) from the definitive Proxy Statement for the 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year covered by this report.

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the parties filed an amended class action settlement agreement which was preliminarily approved by the court in December 1998. In July 1999, the court denied approval of the settlement. The parties' motion for reconsideration is still pending.

Management is not able to predict the outcome of the litigation pending against Brooke Group Holding or Liggett. Litigation is subject to many uncertainties. An unfavorable verdict was returned in the first phase of the ENGLE smoking and health class action trial pending in Florida. Recently, the jury awarded \$790 million in punitive damages against Liggett in the second phase of the trial, and the court has entered an order of final judgment. Liggett intends to pursue all available post-trial and appellate remedies. If this verdict is not eventually reversed on appeal, or substantially reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3.45 million bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation. Management is unable to make a meaningful estimate with respect to the amount or range of loss that could result from an unfavorable outcome of the cases pending against Brooke Group Holding or Liggett or the costs of defending such cases. The complaints filed in these cases rarely detail alleged damages. Typically, the claims set forth in an individual's complaint against the tobacco industry pray for money damages in an amount to be determined by a jury, plus punitive damages and costs. These damage claims are typically stated as being for the minimum necessary to invoke the jurisdiction of the court.

It is possible that Vector's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any such smoking-related litigation.

Liggett's management is unaware of any material environmental conditions affecting its existing facilities. Liggett's management believes that current operations are conducted in accordance with all environmental laws and regulations. Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have not had a material effect on the capital expenditures, earnings or competitive position of Liggett.

Liggett's management believes that it is in compliance in all material respects with the laws regulating cigarette manufacturers.

See Note 23 to Vector's consolidated financial statements for a description of legislation, regulation and litigation and of the Master Settlement Agreement and Brooke Group Holding's and Liggett's other settlements.

VECTOR TOBACCO

Vector Tobacco (USA) Ltd., a wholly-owned subsidiary of BG&S, owns all of the outstanding shares of Vector Tobacco Ltd., a Bermuda corporation. The two entities (collectively, "Vector Tobacco") are engaged in development projects in the tobacco industry.

In February 2001, Vector Tobacco announced that it has developed a new proprietary technology which significantly reduces carcinogenic polycyclic aromatic hydrocarbon (PAH) compounds from cigarette smoke. As a result of the

proprietary process, which employs the use of a complex catalytic system, the PAHs are reduced below the level that is known to initiate carcinomas in mouse skin-painting tests. PAHs are considered by many in the health community to be the most severe cancer-causing agent in cigarettes. Management believes, based on a recognized medical journal, that PAHs are prominent among the causative agents for lung cancer in smokers and that avoiding exposure to PAHs is an important key to decreasing lung cancer incidence.

The new cigarettes are lighted, smoked and taste the same as conventional cigarettes. Subject to independent laboratory verification, Vector Tobacco expects to introduce this product to market in late 2001.

The new technology is intended to compliment Vector Tobacco's rights to a proprietary process that enables the production of a tobacco cigarette that is virtually free of nicotine and virtually free of tobacco specific nitrosamines (TSNAs), another potent carcinogen found in tobacco. This process genetically modifies the tobacco seed to produce a virtually nicotine-free and TSNA-free tobacco. Cigarettes produced with this process have been tested in focus groups in the United States and overseas, with such tests confirming that these cigarettes also smoke and taste like conventional cigarettes. Vector Tobacco expects to introduce this product to market in 2002.

Management believes that, while there is no "safe" cigarette, Vector Tobacco's new products may address the two greatest concerns of the health community about smoking - cancer causing agents and addiction. Vector Tobacco plans to combine its significantly PAH-reduced technology with its virtually nicotine-free and TSNA-free tobacco.

These new products will be marketed by Vector Tobacco. Vector Tobacco has agreed to purchase an existing manufacturing plant in Roxboro, North Carolina, which it will convert into a modern cigarette manufacturing facility.

Vector Tobacco's new product initiatives are subject to substantial risks, uncertainties and contingencies which include, without limitation, the challenges inherent in new product development initiatives, the ability to raise capital and manage the growth of its business, potential disputes concerning Vector Tobacco's intellectual property, potential delays in obtaining any necessary government approvals of Vector Tobacco's proposed new tobacco products, potential delays in obtaining the tobacco, other raw materials and any technology needed to produce Vector Tobacco's proposed new products, market acceptance of Vector Tobacco's proposed new products, competition from companies with greater resources and the dependence on key employees. See additional discussion under "Risk Factors" below.

LIGGETT-DUCAT LTD.

On August 4, 2000, Brooke (Overseas) Ltd., a wholly-owned subsidiary of BGIS, completed the sale of all of the membership interests of Western Tobacco Investments LLC to Gallaher Overseas (Holdings) Ltd. Brooke (Overseas) held its 99.9% equity interest in Liggett-Ducat Ltd., a Russian joint stock company, through its subsidiary Western Tobacco Investments LLC. Liggett-Ducat, one of Russia's leading cigarette producers since 1892, produced or had rights to produce 26 different brands of cigarettes, including Russian brands such as PEGAS, PRIMA, NOVOSTI and BELOMORKANAL, and American blend cigarettes under the names "DUKAT" and "LD".

The purchase price for the sale consisted of \$334.1 million in cash and \$64.4 million in assumed debt and capital commitments. The proceeds generated from the sale were divided among Brooke (Overseas) and Western Realty Development LLC, a joint venture of New Valley and Apollo Real Estate Investment

reduced by the court, it could have a material adverse effect on Vector. Liggett has filed the \$3.45 million bond required under recent Florida legislation which limits the size of any bond required, pending appeal, to stay execution of a punitive damages verdict. Although the legislation is intended to apply to the ENGLE case, management cannot predict the outcome of any possible challenges to the application or constitutionality of this legislation. It is possible that additional cases could be decided unfavorably and that there could be further adverse developments in the ENGLE case. Management cannot predict the cash requirements related to any future settlements and judgments, including cash required to bond any appeals, and there is a risk that those requirements will not be able to be met. In recent years, there have been a number of restrictive regulatory actions from various Federal administrative bodies, including the United States Environmental Protection Agency and the Food and Drug Administration. There have also been adverse political decisions and other unfavorable developments concerning cigarette smoking and the tobacco industry, including the commencement and certification of class actions and the commencement of third-party payor actions. These developments generally receive widespread media attention. Vector is not able to evaluate the effect of these developing matters on pending litigation or the possible commencement of additional litigation, but Vector's consolidated financial position, results of operations or cash flows could be materially adversely affected by an unfavorable outcome in any of such smoking-related litigation.

LIGGETT HAS SIGNIFICANT SALES TO A SINGLE CUSTOMER

In 2000, 33.8% of Liggett's net sales, 38.1% of Liggett's net sales in the discount segment and 24.6% of Vector's consolidated revenues were to Liggett's largest customer. If this customer were to discontinue its relationship with Liggett or experience financial difficulties, Liggett's results of operations could be adversely affected.

EXCISE TAX INCREASES MAY ADVERSELY AFFECT CIGARETTE SALES

As part of the 1997 budget agreement approved by Congress, federal excise taxes on a pack of cigarettes, which are currently 34 cents, were increased at the beginning of 2000 and will rise five cents more in the year 2002. In general, excise taxes and other taxes on cigarettes have been increasing. These taxes vary considerably and, when combined with sales taxes and the current federal excise tax, may be as high as \$1.87 per pack in a given locality in the United States. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and increases in excise and other cigarette-related taxes have been proposed at the state and local levels. A substantial federal or state excise tax increase could accelerate the trend away from smoking and could have an unfavorable effect on Liggett's sales and profitability.

VECTOR TOBACCO IS SUBJECT TO RISKS INHERENT IN NEW PRODUCT DEVELOPMENT INITIATIVES

Vector plans to make significant investments in Vector Tobacco's development projects in the tobacco industry. Vector Tobacco is currently involved with the development of new cigarette products designed to both reduce cancer causing agents in cigarettes to below the level that initiates carcinomas in mouse skin-painting tests and to be virtually free of nicotine. These initiatives are subject to a high level of risks, uncertainties and contingencies, including the challenges inherent in new product development. There is a risk that investments in Vector Tobacco will harm Vector's profitability (if any) or liquidity or cash flow.

The substantial risks facing Vector Tobacco include:

RISKS OF MARKET ACCEPTANCE OF THE NEW PRODUCTS. Vector Tobacco has conducted limited testing of cigarettes produced from tobacco genetically modified to produce a virtually nicotine-free and TSNA-free cigarette, and has been encouraged by the initial results. However, virtually nicotine-free and TSNA-free or low PAH cigarettes may not be accepted ultimately by adult

smokers. Adult smokers may decide not to purchase cigarettes made with virtually nicotine-free and TSNA-free or low PAH tobaccos due to taste or other preferences, or due to the use of genetically modified tobacco or the virtual absence of nicotine.

COMPETITION FROM OTHER CIGARETTE MANUFACTURERS WITH GREATER RESOURCES. The cigarette industry is highly competitive. Vector Tobacco's competitors generally have substantially greater resources than Vector Tobacco has, including, financial and personnel resources. While other major tobacco companies have stated that they are working on reduced risk, "safer" cigarette products, limited additional information is publicly available concerning their activities at this time. There is a substantial likelihood that other major tobacco companies will introduce products that are designed to compete directly with Vector Tobacco's virtually nicotine-free and TSNA-free and low PAH products.

POTENTIAL DISPUTES CONCERNING INTELLECTUAL PROPERTY. Vector Tobacco's success in commercially exploiting its proprietary technology for its virtually nicotine-free and TSNA-free and low PAH products depends in large part on its ability to defend issued patents, to obtain further patent protection for the technology in the United States and other jurisdictions, and to operate without infringing upon the patents and proprietary rights of others. Additionally, it must be able to obtain appropriate licenses to patents or proprietary rights held by third parties if infringement would otherwise occur, both in the United States and in foreign countries.

Intellectual property rights, including Vector Tobacco's patents (owned or licensed), involve complex legal and factual issues. Any conflicts resulting from third party patent applications and patents could significantly limit Vector Tobacco's ability to obtain meaningful patent protection or to commercialize its technology. If necessary patents currently exist or are issued to other companies that contain competitive or conflicting claims, Vector Tobacco may be required to obtain licenses to these patents or to develop or obtain alternative technology. Such licensing agreements, if required, may be unavailable on acceptable terms or at all. If such licenses are not obtained, Vector Tobacco could be delayed in or prevented from pursuing the development or commercialization of its new cigarette products. Any new technology, if feasible, could take several years to develop.

Litigation which could result in substantial cost may also be necessary to enforce any patents to which Vector Tobacco has rights, or to determine the scope, validity and unenforceability of other parties' proprietary rights which may affect its rights. U.S. patents carry a presumption of validity and generally can be invalidated only through clear and convincing evidence. Vector Tobacco may also have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of an invention, which could result in substantial costs. There can be no assurance that its licensed patents would be held valid by a court or administrative body or that an alleged infringer would be found to be infringing. The mere uncertainty resulting from the institution and continuation of any technology-related litigation or interference proceeding could have a material and adverse effect on Vector Tobacco's business, operating results and prospects.

Vector Tobacco may also rely on unpatented trade secrets and know-how to maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with employees, consultants, suppliers and others. There can be no assurance that these agreements will not be breached or terminated, that Vector Tobacco will have adequate remedies for any breach, or that its trade secrets will not otherwise become known or be independently discovered by competitors.

DEPENDENCE ON KEY SCIENTIFIC PERSONNEL. Vector Tobacco's business depends for its continued development and growth on the continued services of key scientific personnel. The loss of Dr. Robert Bereman, Vice President of Chemical Research, or Dr. Mark A. Conkling, Vice President of Genetic Research, could have a serious negative impact upon Vector Tobacco's business, operating results and prospects.

ABILITY TO RAISE CAPITAL AND MANAGE GROWTH OF BUSINESS. If Vector Tobacco is successful in introducing to market and increasing consumer acceptance for its new cigarette products, Vector Tobacco will be required to obtain significant amounts of additional capital and manage substantial volume from its customers. There can be no assurance that adequate amounts of additional capital will be available to Vector Tobacco to fund the growth of its business. To accommodate any such growth and compete effectively, Vector Tobacco will also be required to attract, integrate, motivate and retain additional highly skilled sales, technical and other employees. Vector Tobacco will face competition for these people. Its ability to successfully manage such volume also will be dependent on its ability to scale up its tobacco processing and production operations. There can be no assurance that it can overcome the challenge of scaling its processing and production operations or that its personnel, systems, procedures and controls will be adequate to support its future operations.

POTENTIAL DELAYS IN OBTAINING ANY NECESSARY GOVERNMENT APPROVALS. Vector Tobacco's business may become subject to extensive government regulation. Various proposals have been made for federal and state legislation to regulate cigarette manufacturers. The ultimate outcome of these proposals cannot be predicted. It is possible that laws and regulations may be adopted covering such issues as the manufacture, sale, distribution and labeling of tobacco products as well as any health claims associated with new less hazardous cigarette products and the use of genetically modified tobacco. A system of regulation by agencies such as the Food and Drug Administration, the Federal Trade Commission or the United States Department of Agriculture may be established. Any new laws or regulations of this type could delay Vector Tobacco's introduction of its new products to market or may require it to incur significant expense in complying with any new regulation or in obtaining any necessary government approvals.

POTENTIAL DELAYS IN OBTAINING TOBACCO, OTHER RAW MATERIALS AND ANY TECHNOLOGY NEEDED TO PRODUCE NEW PRODUCTS. Vector Tobacco is dependant on third parties to produce tobacco and other raw materials that Vector Tobacco will require to manufacture its new products. In addition, Vector Tobacco may need to obtain licenses to technology subject to patents or proprietary rights of third parties to produce its products. The failure by such third parties to supply Vector Tobacco with tobacco, other raw materials and technology on commercially reasonable terms, or at all, in the absence of readily available alternative sources, would have a serious negative impact on Vector Tobacco's business, operating results and prospects. There is also a risk that interruptions in the supply of these materials and technology may occur in the future. Any interruption in their supply could have a serious negative impact on Vector Tobacco.

NEW VALLEY IS SUBJECT TO RISKS RELATING TO THE INDUSTRIES IN WHICH IT OPERATES

THE SECURITIES INDUSTRY. As a broker-dealer, Ladenburg is subject to uncertainties endemic to the securities industry. These uncertainties include the volatility of domestic and international financial, bond and stock markets, as demonstrated by recent disruptions in the financial markets, extensive governmental regulation, litigation, intense competition and substantial fluctuations in the volume and price level of securities. Ladenburg also depends on the solvency of various counterparties. As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, profitability is impaired because certain expenses remain relatively fixed. Ladenburg is much smaller and has much less capital than many competitors in the securities industry.